

**STATE OF CALIFORNIA
DEPARTMENT OF INSURANCE
45 Fremont Street, 21st Floor
San Francisco, California 94105**

RH05042665

April 8, 2005

**NOTICE OF PROPOSED ACTION AND NOTICE OF PUBLIC HEARING
REGARDING LOW COST AUTOMOBILE INSURANCE RATES**

SUBJECT OF HEARING

California Insurance Commissioner John Garamendi will hold a public hearing to consider rates for the California Low Cost Automobile Insurance Program.

Currently, the annual premiums for the California Low Cost Automobile Insurance pilot programs are \$347 per vehicle for Los Angeles County and \$314 for the City and County of San Francisco. A 25 percent surcharge is added to the base rate for unmarried male drivers ages 19 through 24 years of age. Annual premiums for optional uninsured motorists coverage are currently \$64 and \$39 for Los Angeles County and the City and County of San Francisco, respectively. For optional medical payments coverage, premiums are currently \$26 for Los Angeles County and \$24 for the City and County of San Francisco.

The California Automobile Assigned Risk Plan ("CAARP") has filed a rate application to increase the rates to \$408 for Los Angeles County and \$369 for the City and County of San Francisco. CAARP also proposes to maintain the current 25 percent surcharge for certain drivers. In addition, CAARP has proposed to increase rates for uninsured motorists coverage to \$79 in Los Angeles County and \$48 in San Francisco City and County, and to increase rates for medical payments coverage to \$46 for Los Angeles County and \$42 for the City and County of San Francisco. The Commissioner will consider CAARP's rate proposal and invites other comments from the public. Premium rates are specified in the program's Plan of Operations, approved by the Commissioner. California Code of Regulations, Title 10, Chapter 5, Section 2498.6 references this plan.

AUTHORITY TO ADOPT RATES AND REFERENCE

The Insurance Commissioner will consider the proposed rates pursuant to the authority vested in him by California Insurance Code Sections 11620, 11624, 11629.72 and 11629.92. Premium rates, referenced in Section 27 of the Plan of Operations, are set forth in Insurance Code Sections 11629.72 and 11629.92, and amended by 2002 Stats., chapter 742, and subsequent decisions of the Commissioner. Government Code Section 11343(a) applies to this proceeding.

HEARING DATE AND LOCATION

Notice is hereby given that a public hearing will be held to permit all interested persons the opportunity to present statements or arguments, orally or in writing, with respect to the proposed rates at the following date, time, and place:

Date and Time: **May 31, 2005**
 10:00 a.m.

Location: **45 Fremont Street**
 22nd Floor Hearing Room
 San Francisco, California 94105

ACCESS TO HEARING ROOM

The facilities to be used for the public hearing are accessible to persons with mobility impairments. Persons with sight or hearing impairments are requested to notify the contact person (listed below) for this hearing in order to make special arrangements, if necessary.

WRITTEN AND/OR ORAL COMMENTS: AGENCY CONTACT PERSON

All persons are invited to submit written comments to the Insurance Commissioner on the proposed rates prior to the public comment deadline. Comments should be addressed to the contact person for this proceeding:

Mary Ann Shulman, Senior Staff Counsel
California Department of Insurance
Legal Division
45 Fremont Street, 21st Floor
San Francisco, CA 94105
Shulmanm@insurance.ca.gov
Telephone: (415) 538-4133
Facsimile: (415) 904-5490

The backup agency contact person for this proceeding will be:

Elizabeth Mohr, Assistant Chief Counsel
California Department of Insurance
Rate Enforcement Bureau
45 Fremont Street, 21st Floor
San Francisco, CA 94105
MohrE@insurance.ca.gov
Telephone: (415) 538-4112
Facsimile: (415) 904-5490

All persons are invited to present oral and/or written testimony at the scheduled public hearing.

DEADLINE FOR WRITTEN COMMENTS

All written materials, unless submitted at the hearing, must be **received** by the Insurance Commissioner at the address listed above **no later than 5:00 p.m. on May 31, 2005.**

Any written materials received after that time will not be considered. Written comments may also be submitted to the contact person by e-mail and facsimile transmission.

Written comments shall be submitted by one method only.

ADVOCACY OR WITNESS FEES

Persons or groups representing the interest of consumers may be entitled to reasonable advocacy fees, witness fees, and other reasonable expenses, in accordance with the provisions of California Code of Regulations, Title 10, Sections 2662.1-2662.6 in connection with their participation in this matter. Interested persons must submit a Petition to Participate, as specified in California Code of Regulations, Title 10, Section 2661.4. The Petition to Participate must be submitted to the Commissioner at the Office of the Public Advisor at the following address:

California Department of Insurance
Office of the Public Advisor
300 Capitol Mall, Suite 1700
Sacramento, CA 95814
Telephone: (916) 492-3500

A copy of the Petition to Participate must also be submitted to the contact person for this hearing (listed above). For further information, please contact the Office of the Public Advisor.

INFORMATIVE DIGEST

California Insurance Code Sections 11629.7 through 11629.999 establish, within the California Automobile Assigned Risk Plan (CAARP), established under Section 11620 of the Insurance Code, low-cost automobile insurance pilot programs for the County of Los Angeles and the City and County of San Francisco.

Because the pilot programs are established and administered through CAARP, CAARP procedures are applied where appropriate and not inconsistent with the low cost automobile insurance statutes. Insurance Code Sections 11620 and 11624 require the Commissioner to hold a public hearing before amending assigned risk plan rates.

Sections 11629.7 and 11629.9 of the Insurance Code require that, after a public hearing, the Commissioner shall approve or issue a reasonable plan for the equitable apportionment, among insurers, of eligible consumers. The plan also contains rules and rates. This plan, approved by the Commissioner, is referenced in Title 10, Section 2498.6 of the California Code of Regulations.

Under the pilot programs, the low-cost auto policy satisfies the financial responsibility laws and provides coverage of \$10,000 for liability for bodily injury or death to one

person, subject to a cumulative limit of \$20,000 for all persons in one accident, and \$3,000 for liability for damage to property. In addition to eligibility and other requirements, the statute sets forth the initial annual premium rates. In certain cases, surcharges are added to the base rate. The statute also provides procedures for adjusting the rates.

In 2002, low cost automobile program legislation reduced initial premium rates set forth in sections 11629.72 and 11629.92 of the Insurance Code to \$347 for Los Angeles County and \$314 for the City and County of San Francisco. In addition, the legislation established the availability of optional coverages of uninsured motorists and medical payments, at additional charge, through the program. The Commissioner established rates for uninsured motorists coverage of \$64 and \$39 for Los Angeles and San Francisco counties, respectively, and rates for medical payments coverage of \$26 and \$24 for Los Angeles and the City and County of San Francisco, respectively. In 2004, CAARP recommended no change to these rates. Following a public hearing, the Commissioner determined to adopt CAARP's rate recommendation to maintain these rates and surcharge.

Insurance Code Sections 11629.72(c) and 11629.92(c) provide that, annually, CAARP shall submit to the Commissioner a proposed rate and surcharge for approval. Accordingly, CAARP has submitted a proposal. CAARP proposes to increase the rates to \$408 for Los Angeles County and \$369 for the City and County of San Francisco. CAARP further proposes to maintain the 25 percent surcharge rate. In addition, CAARP proposes to increase rates for uninsured motorist coverage to \$79 for Los Angeles and \$48 for San Francisco counties and to increase rates for medical payments coverage to \$46 and \$42, respectively, for Los Angeles County and San Francisco City and County. Further details appear in the application on file with the Commissioner, which is available for review as set forth below.

COMPARABLE FEDERAL LAW

There are no comparable existing federal regulations or statutes.

LOCAL MANDATE DETERMINATION

The Insurance Commissioner has initially determined that the proposal will not result in any new program mandates on local agencies or school districts.

COST OR SAVINGS TO STATE OR LOCAL AGENCIES / SCHOOL DISTRICTS / FEDERAL FUNDING

The Insurance Commissioner has initially determined that the proposal will not result in any cost or significant savings to any state agency or to any local agency or school district for which Part 7 (commencing with Section 17500) of Division 4 of the Government Code would require reimbursement, or in other nondiscretionary costs or savings to local agencies. Nor will the proposal affect federal funding to the state.

SIGNIFICANT STATEWIDE ADVERSE ECONOMIC IMPACT ON BUSINESSES AND THE ABILITY OF CALIFORNIA BUSINESSES TO COMPETE

Because the proposal involves rates for private passenger automobiles, the Insurance Commissioner has initially determined that the proposal will not have a significant statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states. This proposal will have no effect on the creation or elimination of jobs in California, the creation of new businesses, the elimination of existing businesses in California, or the expansion of businesses in California.

COST IMPACT ON PRIVATE PERSONS OR ENTITIES

The Insurance Commissioner has initially determined that the proposal will not impact businesses, but will have a potential cost impact on private persons directly affected.

IMPACT ON HOUSING COSTS

The Insurance Commissioner has initially determined that the proposal will not affect housing costs.

SPECIFIC TECHNOLOGIES OR EQUIPMENT

The proposal would not mandate the use of specific technologies or equipment.

ALTERNATIVES

The Insurance Commissioner must determine that no reasonable alternative considered by the agency, or that has otherwise been identified and brought to the attention of the agency, would be more effective in carrying out the purpose for which the action is proposed or would be as effective as and less burdensome to affected private persons than the proposed action.

The agency invites interested persons to present statements or arguments with respect to the proposed rate, or other alternatives, at the scheduled hearing or during the written comment period.

PLAIN ENGLISH

The rate application describing the proposal is in plain English. However, the application itself is based on technical actuarial principles.

TEXT AND INITIAL STATEMENT OF REASONS

The Department has prepared an Initial Statement of Reasons addressing the rate proposal, in addition to the Informative Digest included in this notice. The Initial Statement of Reasons and this Notice of Proposed Action are available for inspection or copying, and will be provided at no charge upon request to a contact person listed above. Further details of CAARP's rate application are on file with the Commissioner and available for review as set forth below.

QUESTIONS REGARDING REGULATIONS / ACCESS TO RULEMAKING FILE

Any interested person may inspect a copy of or direct questions about the proposed rate application, the statement of reasons, and any supplemental information contained in the

rulemaking file by contacting the contact person listed above. **By prior appointment,** the rulemaking file is available for inspection at 45 Fremont, 21st Floor, San Francisco, California 94105 between the hours of 9:00 a.m. and 4:30 p.m. Monday through Friday.

ACCESS TO CAARP'S RATE APPLICATION

Any interested person may inspect a copy of the proposed rate application. **By prior appointment**, CAARP's rate application is available for inspection at the public viewing rooms at 45 Fremont Street, 22nd Floor, San Francisco, California 94105 by calling 415/538-4300, and at the Ronald Reagan State Building, 300 South Spring Street, Los Angeles, CA 90013 by calling 213/346-6707 between the hours of 9:00 a.m. and 4:30 p.m. Monday through Friday.

FINAL STATEMENT OF REASONS

Once prepared, the Final Statement of Reasons will be made available through the contact persons listed above.

AVAILABILITY OF MODIFIED TEXT

With the exception of nonsubstantive or grammatical changes, if the Department makes modifications which are sufficiently related to the originally proposed text, it will make the modified text (with the changes clearly indicated) available to the public for at least 15 days before it adopts the regulations.

AUTOMATIC MAILING

A copy of this Notice, including the Informative Digest, is being sent to all persons on the Insurance Commissioner's mailing list.

AVAILABILITY OF DOCUMENTS ON THE INTERNET

The Initial Statement of Reasons and this Notice of Proposed Action will be published online and may be accessed through the Department's website at www.insurance.ca.gov.

JOHN GARAMENDI
Insurance Commissioner

Dated: March 29, 2005

By: _____ /s/_____
Mary Ann Shulman
Senior Staff Counsel